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SUBJ: RECONSTRUCTION OPPORTUNITY ZONE PREP - GAINING SOME TRACTION?

¶1. (SBU) Summary: The GOP has begun to take some nascent steps at the federal and provincial level to prepare for the creation of Reconstruction Opportunity Zones, even though the U.S. Congress has yet to pass the ROZ legislation. The Ministry of Commerce continues its role as champion of GOP efforts in identifying ROZ sites, ensuring proper ROZ regulation, and informing potential investors. However, many Pakistani businesses complain that the ROZ financial incentives will not match the increased labor, security, infrastructure, and transport costs of doing business in the designated areas of NWFP, Balochistan and Azad Jammu Kashmir. USAID will provide technical support to the federal and provincial authorities to put the proper regulatory structures in place for ROZs and can also weigh in to some extent to address physical infrastructure needs. Ultimately the ROZs' success will depend on whether the ROZ "package" - to include both U.S. and domestic GOP incentives - is sufficient and timely enough to overcome the challenges and woo domestic and international investors. End Summary.

Marrying Action to Talk?

¶2. (SBU) After much talk about GOP plans to prepare for ROZs both at the federal and provincial levels, signs that concrete action is at last getting under way are beginning to emerge. Secretary Commerce Suleiman Ghani told Econ Counselor and visiting Senior Economist (Pakistan) on August 3 that the GOP is moving forward with planning and that he had, on the margins of introducing the 2009-2012 Trade Policy on August 2 (septel) and since the two are closely linked, taken the opportunity to brief the Prime Minister on Commerce actions and plans for ROZs:

-- Commerce has initiated a dialogue with provincial governments in Balochistan, NWFP and Azad Jammu Kashmir to finalize a list of possible sites, institutional requirements and to develop an incentive package.

-- A campaign to inform potential investors has been launched.

-- A total of \$37.5 million for ROZs has been allocated from the Public Sector Development Program.

-- A study has been initiated to identify possible changes required in the regulatory framework.

-- A joint study group has been established with the United States to discuss and finalize (among other issues) details of setting up the ROZs; to develop a roadmap for a Free Trade Agreement; and to discuss the possibility of earlier, additional market access.

¶3. (SBU) In his presentation to the Prime Minister, Ghani also highlighted what he called necessary institutional arrangements, the first of which was the formation of a body to coordinate all activity on ROZs at the federal level and attached to the Ministry of Commerce. Commerce prefers that this be a statutory body set up under a specific legal authority. Commerce also foresees establishing a project implementation unit to develop the concept, institutional framework and other essential underlying tasks. According to the Commerce model, the provinces would be empowered to establish and operate ROZs; provinces would also take the lead in certifying compliance. The Federal Board of Revenue (FBR) will also establish units inside each individual ROZ.

¶4. (SBU) In a recent meeting with Peshawar PolOff and USAID, Additional Secretary Commerce (and USAID POC at the Commerce Ministry) Qamar Zaman and Joint Secretary Najeeb Awan said that an inter-provincial meeting would be held "soon" to designate the areas where ROZs would be built. Zaman also indicated that Commerce was in contract talks with a legal consultant to help with ROZ preparations. Awan subsequently confirmed that the GOP was considering the main industrial estates in the areas designated thus far for ROZs, adding that Hattar, Gadoon, Risalpur (export processing zone), Peshawar and Jalozai were the prime areas of focus in NWFP, as were Chaman and Quetta in Balochistan. On August 3, Ghani indicated that the GOP intends to have seven (unnamed) ROZs operational within the next three years, beginning with at least one in each of the targeted geographical areas.

Provincial-Level Action Too

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¶5. (SBU) At the provincial level there is also some modest progress. Staff from the USAID-funded FATA Capacity Building Project (CBP), assisting provincial efforts to prepare for ROZs, report that the governor and chief minister of the NWFP created a provincial level committee led by the NWFP Ministry of Industry to spearhead efforts.

¶6. (SBU) In another positive development, at the behest of Shakeel Qadir, the former chief economist of the NWFP and current Director General of Provincial Reconstruction Rehabilitation Settlement Authority (PaRRSA) and Provincial Disaster Management Authority (PDMA), FATA-CBP has engaged a labor consultant to assist NWFP officials to meet the labor requirements likely to be embedded in the final ROZ legislation. The consultant has held one stakeholder meeting thus far, and is planning to examine existing laws with a particular eye toward identifying the prerogatives of the federal government in relation to the provincial authorities. The resulting recommendations will facilitate federal government and provincial government coordination in monitoring labor compliance specifically related to ROZs.

¶7. (SBU) Finally, an "ROZ cell" is being created in the Sarhad Chamber of Commerce in Peshawar to coordinate with the NWFP provincial government on ROZ implementation. Funding for the cell was recently included in the NWFP budget. According to FATA-CBP staff, the ROZ cell is hiring a director and two managers. The cell will focus on investment promotion as well as regulatory matters.

But Concerns Remain

¶8. (SBU) Post hears consistently concerns from Pakistani businesses that financial incentives are insufficient for them to establish production centers in the areas designated for ROZs. Industrialists from the Sarhad Chamber of Commerce have practically made it their mantra that the increased cost of production in the NWFP (where workers will have to be trained or imported from other parts of the country initially and infrastructure is currently quite limited), as well as increased costs for security and transporting goods to ports for export will outweigh any incentive the GOP or the USG can provide - barring significant expansion of the textile categories. If the number of letters received at Post is any guide, Pakistani

business is focusing its efforts on enacting changes to the U.S. legislation rather than lobbying the Pakistani government to augment its own incentives.

¶9. (SBU) In an August 6 meeting with Treasury Attach and Consulate General Econ Officer, S. Ali Raza, President of National Bank of Pakistan, stated his customers were expressing concern about setting up business in the ROZs due to security conditions and access to trade. More troubling, Raza also admitted he had instructed his loan officers to steer clients away from the ROZs because the security and financial risks were too great.

¶10. (SBU) Ghani acknowledged that the GOP must take concrete steps to make ROZs attractive to business, particularly as he said he agreed privately that the product mix being offered is not optimal. Among other ideas, Commerce is advocating establishment of a dedicated infrastructure and energy development fund; improving transportation corridor efficiency; building institutional capacity at Customs and the Ministry of Labor, and for security; developing a special incentive package; establishing dedicated manpower development institutions; establishing "social infrastructure" to address the housing health and educational needs in ROZ areas. Although he admitted to being "a little behind schedule," Ghani said that the GOP was aiming to have an in-depth study of ROZs submitted by 15 September and to have a plan for the institutional set-up sometime in October. An assessment of infrastructure and other requirements is due by the end of the year and work is to begin on at least one ROZ per area/province by March 2010.

¶11. (SBU) Comment: Ghani, the engine behind the GOP ROZ effort, was both pragmatic and explicit in his comment that the GOP is determined to "make a go" of the ROZs even if changes in product or geographic coverage are not forthcoming. While Ghani states that the GOP is not waiting for U.S. legislation to be passed in its preparations for ROZs, signs point otherwise. Despite rosy presentations at the federal level, action is harder to find. For instance, at the federal level no date has been set for the interprovincial meeting and in the NWFP, the provincial level

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committee led by the NWFP Ministry of Industry has only met once since its creation three months ago. However, the GOP is eager to work with the United States on ROZs; Commerce officials are looking forward to convening soon the Joint Study Group to which both sides committed at the TIFA talks in April, although Ghani offered no specific dates.

¶12. (SBU) Comment cont'd: The progress at the national and provincial levels is modest and reflects the slow pace of action to date. The years of waiting for ROZ legislation to pass Congress has affected our ability negatively to push for urgent GOP actions. Fortunately, the arrival on the scene of USAID's "Empower Pakistan: Trade" program brings to bear a greater array of technical assistance, to augment that already being provided by the FATA-CBP program at the provincial level: ROZ implementation is one of the new program's highest priorities. With that additional leverage, Post will be able to support more closely and encourage GOP efforts that, despite these steps, remain for the most part very preliminary. Unless the GOP picks up the pace, ROZ implementation, if finally approved in Congress, will be slowed while the GOP plays catch-up to meet ROZ requirements.

PATTERSON